

Message Text

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ACTION NEA-12

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R 170400Z JUL 73 ZDK

FM AMEMBASSY DACCA

TO SECSTATE WASHDC 0350

INFO AMCONSUL CALCUTTA

AMEMBASSY ISLAMABAD

AMEMBASSY LONDON

AMEMBASSY NEW DELHI

AMEMBASSY KATHMANDU

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E.O. 11652: N/A

TAGS: EGEN ETRD PFOR BG IN

SUBJ: NEW INDO-BANGLADESH TRADE AGREEMENT

SUMMARY: THREE-YEAR INDO-BANGLADESH TRADE AND PAYMENTS AGREEMENT SIGNED JULY 5 IN DACCA CALLS FOR TRADE IN EACH DIRECTION OF TK 300 MILLION DURING FIRST YEAR. AGREEMENT GOES INTO EFFECT SEPTEMBER 28 WHEN CURRENT, TWICE-EXTENDED LIMITED PAYMENTS AGREEMENT EXPIRES. LATTER AGREEMENT ATTAINED ONLY TK 200 MILLION OF TARGETED TK 250 MILLION IN TRADE EACH WAY DESPITE EXTENSION TO PERMIT BD EXPORTS TO CATCH UP WITH INDIAN EXPORTS. SHORTFALL OF TK 20 MILLION ON BD SIDE WILL BE COVERED IN NEW AGREEMENT. MOST CONTROVERSIAL ASPECT OF NEW AGREEMENT IN BENGAL EYES IS PROVISION FOR EXPORT OF APPROXIMATELY 10 PERCENT OR MORE OF BD'S ANNUAL RAW JUTE PRODUCTION TO INDIA, WHERE IT WILL BE MANUFACTURED INTO JUTE GOODS WHICH MAY COMPETE ABROAD WITH BD JUTE GOODS EXPORTS. INDIAN SIDE ARGUES THAT CHANNELING OF JUTE TRADE IN OFFICIAL CHANNELS WILL DISCOURAGE ILLEGAL SMUGGLING OF RAW JUTE INTO INDIA. AGREEMENT PROVIDES THAT ITEMS TRADED WITHIN ITS FRAMEWORK WILL BE PRICED AT WORLD MARKET RATES. OVERALL, AGREEMENT SHOULD WORK TO MUTUAL

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BENEFIT BOTH COUNTRIES. GOVERNMENTS APPEAR SENSITIVE TO CRITICISMS

ABOUT WORKINGS EARLLIER AGREEMENT AND HAVE TAKEN SEVERAL REMEDIAL MEASURES. SOME SCOPE IS PROVIDED FOR INDIAN CREDITS TO BD OUTSIDE AGREEMENT AND APPARENTLY FOR LIMITED PRIVATE TRADE, BUT EXPLICIT ULTIMATE AIM IS TO LIMIT ALL BILATERAL TRADE TO PUBLIC SECTOR.

1. BACKGROUND: ON JULY 5 BD MINISTER FOR COMMERCE AND FOREIGN TRADE KAMARUZZAMAN AND INDIAN COMMERCE MINISTER D.P. CHATTOPADHYA SIGNED THREE-YEAR "BALANCED TRADE AND PAYMENTS AGREEMENT" (BTPA) IN DACCA. FOLLOWING BASED ON PRESS ACCOUNTS OF AGREEMENT AND JOINT PRESS STATEMENT THEREON. TEXT OF AGREEMENT ITSELF NOT YET AVAILABLE. BTPA IS MAJOR REVISION OF THE LIMITED PAYMENTS AGREEMENT (LPA) SIGNED BETWEEN INDIA AND BANGLADESH IN MARCH 1972. LATTER AGREEMENT, WHICH WAS FOR ONE YEAR, HAS SINCE BEEN TWICE EXTENDED FOR THREE-MONTH PERIODS AND NOW EXPIRES SEPTEMBER 27, 1973. LPA FELL FAR SHORT OF TRADE TARGETS OF TK 250 MILLION IN EACH DIRECTION. (TK AND INDIAN RS ARE OFFICIALLY ON PAR WITH ONE ANOTHER AND BOTH ARE TIED TO, AND FLOAT WITH, POUND STERLING. IN MARKETPLACE, HOWEVER, TK 100 WILL CURRENTLY FETCH ONLY ABOUT RS 60. CURRENT OFFICIAL RATIO OF TK TO DOLLAR IS TK 7.2 EQUALS \$1.). INDIA EXPORTED TO BANGLADESH UNDER LPA GOODS VALUED AT APPROXIMATELY TK 200 MILLION, BUT BANGLADESH SENT TO INDIA GOODS VALUED AT ONLY TK 180 MILLION. AMONG REASONS ADVANCED FOR TWO THREE-MONTH EXTENSIONS OF LPA WAS TO ENABLE BANGLADESH TO CLOSE TRADE GAP. DETAILS ON ITEM BY ITEM BASIS OF COMMODITIES TRADED UNDER LPA ARE THUS FAR FEW. EMBASSY WILL SEEK AND REPORT AVAILABLE TRADE DATA.

2. NEW BTPA CALLS FOR TRADE WORTH TK 300 MILLION FIRST YEAR OF AGREEMENT. TRADE TARGETS FOR SUBSEQUENT YEARS WILL BE SET ON BASIS PERFORMANCE DURING FIRST YEAR OF BTPA.

3. UNDER BTPA INDIA WOULD EXPORT FOLLOWING COMMODITIES WITH VALUATIONS INDICATED: COAL, TK 60 MILLION; UNMANUFACTURED TOBACCO, TK 52 MILLION; CEMENT, TK 30 MILLION; RAW COTTON, TK 75 MILLION; BOOKS, NEWSPAPERS, PERIODICALS AND MUSICAL INSTRUMENTS, TK 2.2 MILLION. OTHER ITEMS WHICH INDIA MAY SUPPLY UNDER THIS BTPA

INCLUDE BICYCLES AND PARTS, LOCAL MEDICINES INCLUDING HERBSBO CHEMICALS AND PHARMACEUTICALS, SPICES, SPARE PARTS, MACHINERY AND EQUIPMENT OF SMALL VALUE, AND MISCELLANEOUS ITEMS.
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4. BANGLADESH IS TO EXPORT TO INDIA UNDER BTPA RAW JUTE WORTH TK 200 MILLION; FRESH AND DRIED FISH, TK 35 MILLION (DOWN DRASTICALLY FROM LPA TARGET OF TK 90 MILLION); NEWSPRINT, TK 45 MILLION; HIDES AND SKINS, TK 10 MILLION; LOCAL MEDICINES AND HERBS, TK 500,000; MOVIES, TK 2.2 MILLION; PHARMACEUTICALS, TK 300,000; BOOKS, MAGAZINES AND PERIODICALS, TK 1 MILLION; AND SPICES, TK 500,000. OTHER ITEMS INCLUDE SHIMSUL LEAVES AND

MISCELLANEOUS.

5. VOLUME OF RAW JUTE TO BE EXPORTED TO INDIA IN 1973-74 IS SET AT 600,000 BALES AND INDIA HAS OPTION TO BUY MORE. JOINT PRESS RELEASE ISSUED IN CONNECTION WITH BTPA NOTES THAT "INDIA'S IMPORT OF RAW JUTE FROM BANGLADESH IS EXPECTED TO BE ABOUT 75 TO 80 PERCENT HIGHER THAN WHAT IT IMPORTED UNDER THE GRANT LPA". (SEE REACTION AND COMMENTS BELOW).

6. JOINT PRESS RELEASE ALSO SAYS, "NEW TRADE AGREEMENT IS REFLECTION OF DESIRE OF BOTH GOVERNMENTS TO PROMOTE TRADE AND COMMERCIAL RELATIONS BETWEEN TWO COUNTRIES AND TO STRENGTHEN ECONOMIC RELATIONS BASED ON MUTUAL BENEFIT, UNDERSTANDING, AND FRIENDSHIP". STATEMENT INDICATES THAT "CONSIDERING PROBLEMS OF INTERNAL TRANSPORT, SHIPPING DIFFICULTIES, AND PROCEDURAL ARRANGEMENTS THAT HAD

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FM AMEMBASSY DACCA
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TO BE WORKED OUT FOR FIRST TIME AFTER LONG YEARS OF ABSENCE OF TRADE RELATIONS BETWEEN THE TWO COUNTRIES, EXPORT PERFORMANCE OF BOTH COUNTRIES (UNDER LPA) WAS VERY SATISFACTORY". STATEMENT EXPLAINED THAT NEW TARGET OF TK 300 MILLION UNDER BTPA WAS ARRIVED AT AFTER "EXTENSIVE STUDIES OF ACTUAL AVAILABILITIES AND EXPORTABLE

SURPLUSES AND CAPACITY OF TRANSPORT SYSTEMS OF TWO COUNTRIES TO DELIVER". (BTPA CALLS FOR JOINT TRANSPORTATION COORDINATION COMMITTEE TO IRON OUT TRANSPORT BOTTLENECKS). STATEMENT SAYS, "BALANCED AND DIVERSIFIED TRADE ARE EXPECTED TO BE HALLMARK OF NEW ARRANGEMENT". OFFICIALS OF TWO COUNTRIES ARE TO MEET SIX MONTHS AFTER INITIATION OF BTPA TO DETERMINE THE COMPOSITION OF TRADE UNDER SECOND AND THIRD YEAR OF AGREEMENT.

7. STATEMENT NOTES THAT "DESPITE SEVERE SHORTAGES WITHIN INDIA OF COTTON YARN AND CEMENT", INDIA AGREED TO SUPPLY THESE COMMODITIES UNDER NEW AGREEMENT BECAUSE OF LARGE DEMAND FOR THOSE ITEMS IN BANGLADESH. "SIMILARLY, BANGLADESH SIDE AGREED TO MAINTAIN AN ADEQUATE LEVEL OF SUPPLY OF NEWSPRINT AND LOW-GRAMMAGE PAPER DESPITE SIGNIFICANT RISE IN DOMESTIC CONSUMPTION".

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8. STATEMENT STATES EXPECTED SHORTFALL OF BANGLADESH EXPORTS UNDER LPA WILL, INSTEAD OF BEING SETTLED IN FREE FOREIGN EXCHANGE, BE ADJUSTED UNDER VOLUME OF TRADE ENVISAGED FOR FIRST YEAR OF NEW AGREEMENT. STATEMENT FURTHER PROVIDES THAT "EXCHANGE OF GOODS UNDER THIS ARRANGEMENT WOULD BE TREATED ON AN EQUAL FOOTING WITH GOODS UNDER CONVERTIBLE CURRENCY IN RESPECT OF BOTH QUALITY AND PRICES OF GOODS TO BE EXCHANGED". ALSO NOTES THAT COMMODITIES COVERED UNDER AGREEMENT ARE GENERALLY TRADED INTERNATIONALLY AGAINST CONVERTIBLE CURRENCIES.

9. EXCEPTIONS: STATEMENT SAYS THAT "MACHINERY, EQUIPMENT AND ENGINEERING GOODS WHICH ARE GENERALLY AVAILABLE AGAINST MEDIUM OR LONG-TERM CREDIT ARRANGEMENTS HAVE BEEN KEPT OUTSIDE THE PURVIEW OF BTPA. THESE COMMODITIES WOULD CALL FOR IDBI-TYPE (INDUSTRIAL DEVELOPMENT BANK OF INDIA) CREDITS THAT HAVE BEEN EXTENDED BY THE GOVERNMENT OF INDIA" (DACCA 2431). MOREOVER, "BOTH SIDES AGREE THAT BESIDES THE EXCHANGE OF GOODS UNDER THE NEW AGREEMENT, THERE COULD BE A LARGE VOLUME OF TRADE BETWEEN THESE COUNTRIES IN FREE FOREIGN EXCHANGE, SUCH AS TEXTILES AND COTTON YARNS, ETC". (LIKE LPA, BTPA DOES NOT MENTION CRUDE OR POL WHICH INDIA CURRENTLY SUPPLYING OR GETTING FOR BD ON COMMERCIAL TERMS).

10. POINTS IN AGREEMENT WHICH HAVE RAISED MOST CONCERN IN BANGLADESH CIRCLES ARE THOSE RELATED TO JUTE TRADE. OPPOSITION PAPER "HOLIDAY" (WHICH GENERALLY ANTI-INDIA) SAID THAT PROVISION TO SEND TO INDIA NEARLY 10 PERCENT OF ANTICIPATED BANGLADESH JUTE CROP WILL LIKELY CRIPPLE BANGLADESH JUTE INDUSTRY. "HOLIDAY" POINTED OUT THAT BANGLADESH JUTE GOODS HAVE TO COMPETE WITH AND SELL SLIGHTLY UNDER INDIAN JUTE GOODS ON WORLD MARKETS. SUPPLYING OF ADDITIONAL RAW JUTE TO INDIA WOULD ONLY MEAN THAT BANGLADESH WILL BE COMPETING WITH ITSELF IN WORLD'S JUTE GOODS MARKET. PAPER SAID BANGLADESH MUST COMPETE HARDER TO MAINTAIN ITS SHARE OF DWINDLING INTERNATIONAL

JUTE GOODS MARKET WHERE SYNTHETICS MAKING HEAVY INROADS.

11. INDIAN COMMERCE MINISTER TOLD PRESS CONFERENCE THAT NECESSARY ARRANGEMENTS HAVE BEEN MADE TO STOP SMUGGLING OF RAW JUTE INTO INDIA UNDER NEW AGREEMENT. HE SAID THAT THE 600,000 BALES TO BE EXPORTED TO INDIA UNDER AGREEMENT PLUS INDIA'S OWN JUTE PRODUCTION WOULD BE SUFFICIENT TO MEET NEEDS OF INDIAN ECONOMY. HE REPORTEDLY ARGUED THAT ADEQUATE SUPPLY OF JUTE IN LIMITED OFFICIAL USE

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INDIA WOULD ACT AS DETERRENT TO SMUGGLING OF RAW JUTE BUT DID NOT RULE OUT POSSIBILITY OF SOME JUTE SMUGGLING. HE SAID SO-CALLED "BORDER TRADE" CONTINUES TO BE RULED OUT AND THAT MECHANISMS COULD BE WORKED OUT BETWEEN THE TWO GOVERNMENTS TO CHECK SMUGGLING.

12. INDIAN MINISTER DENIED THAT CHANNELING OF BILATERAL TRADE THROUGH GOVERNMENT SECTOR HAD BEEN MAJOR FACTOR IN HAMPERING BILATERAL TRADE UNDER LPA. HE REPORTEDLY ADDED THAT IT IS GOI POLICY TO ELIMINATE GRADUALLY INDO-BANGLADESH TRADE IN PRIVATE SECTOR AND TO HAVE PUBLIC SECTOR TAKE IT OVER. HE ALSO TOLD NEWSMEN THAT BOTH GOVERNMENTS HAD AGREED ON QUALITY CONTROLS OVER INDIAN TEXTILE EXPORTS, BOTH IN INDIA AND BD, SO AS TO AVOID ANY CRITICISM. (THIS REFLECTS WIDESPREAD BENGALIEE CONCERN OVER ALLEGEDLY SHABBY CLOTH BDG PURCHASING AGENCY IMPORTED UNDER LPA - SEE DACCA 4167 OF 11/4/72).

13. BANGLADESH COMMERCE MINISTER TOLD PRESS THAT RAW JUTE EXPORTED TO INDIA UNDER BTPA WOULD BE SOLD AT INTERNATIONAL COMPETITIVE PRICES AND ASSERTED THAT INDIA COULD HAVE AS MUCH RAW JUTE AS IT NEEDED.
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